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## Southeast Asian State Responses to a Regionalized World Economy

Schmidt, Johannes Dragsbæk

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DEPARTMENT OF DEVELOPMENT AND PLANNING  
AALBORG UNIVERSITY  
FIBIGERSTRAEDE 2  
DK 9220 AALBORG Ö  
DENMARK

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## **Southeast Asian State Responses to a Regionalized World Economy**

by

**Johannes Dragsbaek Schmidt**

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FAX. +45 98 15 32 98

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# Southeast Asian State Responses to a Regionalized World Economy<sup>1</sup>

*When a butterfly on one side of the world  
flaps its Western wings, the [political]  
currents are felt on the other side<sup>2</sup>*

## 1. Introduction

The emergence of exclusive regional blocs is conceived by many scholars and policymakers as a central feature in the contemporary international political economy. Some observers welcome it as a force for strengthening stability and world order at both the regional and the global level. Others view regionalism as a potentially disruptive force. This critique fear regionalization to increase economic friction and the adoption of beggar-my-neighbour policies between blocs. One reason for these conflicting reactions is the various connotations related with the concept. Another reason has a more theoretical foundation and beg the question: is the emergence of regional trade blocs pro or contra 'comparative advantage' and nondiscriminatory multilateral 'free trade', or will it fragment the world economy!

However, the object of this study is not to elaborate in detail or distinguish the different concepts and theories of 'regionalism' and 'regionalization'.<sup>3</sup> On the one hand, it provides a tentative perspective on how Southeast Asian latecomers develop strategies and deliberately select state capacities and capabilities to implement efficient economic policies in order to catch-up in the global market-place. On the other hand, it explores the link between national and collective responses to the emerging regionalism in the North.

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<sup>1</sup> Revised paper presented to Copenhagen Conference of the Network on State and Society in East Asia, 29 April - 2 May, 1993. I am indebted to Stein Tønnesson, Kjeld Erik Brødsgaard and Jacques Hersh for helpful comments on an earlier draft. The usual caveat applies.

<sup>2</sup> Old Oriental adage.

<sup>3</sup> Defined broadly 'regionalism', is preferential trade agreements among a subset of nations either through customs unions or free trade areas. 'Regionalization' on the other hand denotes a geographical and spatial term.

In fact, economic regionalism and a new kind of mercantilism is perceived by many scholars as a development which may overtly compete with GATT-sponsored multilateralism. A related development is the almost universal theme among policymakers and academics concerning the urgency of how to increase and promote national competitiveness on global markets. Today, all category countries in the world economy are export-oriented trying to take maximum advantage of world trade through increasing their share of global exports. The combined trend of regionalism and neo-mercantilism increases since:

- 1) the hegemonic role of North America in the world economy is rapidly declining and tends to be replaced by a tripolarization of world trade and production in which NAFTA, the Single European Market and Japan have become three major power centers - the triad,
- 2) multilateral free trade under GATT is under serious challenge by the changing U.S. trade and industrial position, rising regionalism and protectionism in Europe, and the passive role of Japan, and
- 3) exporting countries in North and Southeast Asia are on the brink to move toward forming free trade areas in fear of rising regionalism and protectionism in the United States and Europe.

In addition, independently of the breakdown of the planned economies in Eastern Europe and the Soviet Union, two tendencies seems to be pursued simultaneously at the global level. One tendency is a push towards deregulation, liberalization and industrialization in East Asia and the Third World, and the other is re-regulation and increasing nontrade related protectionism in the triad. The latter is reinforced by trends towards relocation of industries, new technology and financial capital among members of the triad, while it is only in the regional East Asian division of labour a new economics of scale is emerging - or what has been termed the *open regionalism*.<sup>4</sup>

For states located in ASEAN,<sup>5</sup> the fundamental question is how to cope with these changes.

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<sup>4</sup> Some Japanese scholars use this Janus-faced expression signifying an underlying dilemma. 'Open regionalism' implies that certain measures are to be reinforced in a specified geographic area. Hence, a regionalism without discrimination - which 'open regionalism' implies - is a self-contradictory concept.

<sup>5</sup> ASEAN comprise the four big resource-rich member-states of the Association of Southeast Asian Nations, Thailand, Malaysia, Indonesia and the Philippines. Furthermore, the small oil-emirate Brunei and the entrépot city-state Singapore are members of ASEAN. In this article unless otherwise stated

The era of American dominance is not only declining in Southeast Asia but seems to be overtaken by a much more complex web of power relations. Despite the signing of a new GATT Agreement it remains an open question if for the first time in world history laissezfaire will emerge or geoeconomics again becomes the rule of the day. What are the options in Southeast Asia? Is it wise to form a new exclusive trade group - 'closed regionalism' - or does the so-called 'unity in diversity concept' in ASEAN literally mean that national interest prevail?

This seemingly contradictory process is accompanied in the ASEAN-states by high economic growth rates and a rising national and regional confidence in their development performance.<sup>6</sup> However, once a peripheral country succeeds in its industrial upsurge, the growth rate of such an economy is high, often surpassing the rates of growth of other economies, and even amid a depression of the international economy. When this growth rate surpasses core states, it will be conspicuously higher in contrast to the declining trend of the world economy. Trade friction will occur when core states try to defend their markets. This is one of the reasons that growing polarization and trade frictions are deeply related to the world recession and the industrialization in the periphery. Another reason is the fact that most peripheral states catch-up only in retarded technological industries. This is because of the existence of a technological gap within the international division of labour. It can be seen by the fact that most peripheral states have only caught up in the textile industry so far. However, advanced industry production in the export sectors is either foreign-owned or joint-ventures.

The prolonged world recession which started in the early 1980s, the general decline in commodity prices, and the threatening signs of a return to international protectionism have thrust fundamental questions about the role of the state and economic policy-making back to the debate on development. The call for a reassessment of the role of the state in economic growth and development in general might also be a reaction to world-wide pressures from the multilateral institutions, the World Bank and IMF, and to the more extreme versions of market-oriented prescriptions, the so-called neo-classical revival evident in the 1980s.

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ASEAN countries refers to all members of ASEAN, and ASEAN-4 refers to all countries except Brunei (for which there are limited comparable data) and Singapore, the latter being a member of the NIC category.

<sup>6</sup> Average GNP growth rates for the ASEAN-4 have been above the average for other developing regions. Between 1971-80 the average was 7.4 percent and the inflationrate was 13.6 percent. 1981-90 saw a growth rate on 5.2 percent and a falling inflationrate to 7.5 percent. Asian Development Bank, Asian Development Outlook, 1992, Manila, 1992, Table A1 and A9.

When I say, a better understanding is essential for the newly reopened debate regarding the appropriate role of the state in prompting growth and national accumulation it is because this debate is not new at all! It started seriously with the catch-up theories developed by Alexander Hamilton in the United States in the beginning of the 19th century and were later developed by Friedrich List in Prussia. This school of thought is known under various names as *economic nationalism*, *handelspolitik* or *neo-mercantilism*. In the beginning of the 1950s a number of economists later to be known as the ECLA school fine-tuned this theory and laid the ground for the strong performance of state-led industrial strategies in several Latin-American countries in the 1960s and the beginning of the 1970s. It is the experience and important elements from this century-old-debate which shaped the development strategies used by the sometimes mistakingly upheld unique success stories from Japan, Korea and Taiwan.\*

Therefore, the debate on the role of the state has relevance in the Southeast Asian context as well. Not as a kind of simple replication of the 'Japanese model', but in the general framework of the theoretical tradition dealing with 'how capitalist late-comers catch-up' in a changing international division of labour. The central theme in this debate is the autonomy or rather the bounded autonomy of the developmental state. As emphasized in the literature, the circumstances and especially the international environment, under which Korea and Taiwan developed in the 1960s and 1970s were quite different from the problems which policymakers face today.

Let me recapitulate with a brief presentation of these changes. A number of scholars have noted that "with the collapse of the cold war the world economy is back in a pre-1917 context where three core centers compete for hegemonic supremacy." As earlier mentioned, this situation has a number of important characteristics which are radically different from the cold war situation. The 1990s have seen profound changes towards increasing economic rivalry and competition for capital and markets and a nonhegemonic multipolarity of capitalist power centers at the global level.

There are two fundamental responses to the recent dramatic changes in the international political economy. One is located at the national level, and the second at the regional level. In the following I will concentrate the discussion on the new contradiction between regionalization and liberalization, the role of Japan in Southeast Asia and selective national responses from the ASEAN states and ASEAN as a regional group to the changing international order.

## 2. Regionalization or liberalization in the world economy

The contemporary world economy is increasingly being transformed for the coming era in which butter will be far more vital than guns, and competition among major capitalist powers intensifies. As the hegemonic role of the U.S. declines further, the Japanese and the EU are expected to grow relative to the American position. Hence it creates a U.S.-Europe-Japan tripolarity resulting in strong economic rivalry among these three major powers but leaving the majority in the South with decreasing opportunities and room of manoeuvre.

The Washington dominated world order of the postwar period has been largely reversed by the rising economic power of Japan and the relative decline of the North American economy.<sup>7</sup> Tokyo's share of world GDP increased dramatically from 4.1 percent in 1960 to 11.8 percent in 1985, while the American share decreased from 31.5 percent to 25.2 percent during the same period. The global economy is now characterized by a *transnational* division of labour, where power has centred on the U.S., EU and Japan. Industrial production is restructured and internationalized key sectors such as the oil giants, car companies, and electrical goods are expanding production facilities to cheaper locations. Most recently there has been a shift of manufacturing to Southeast Asia. But at the same time as capital internationalize core nations come together by forming administrative, political and security coalitions on a regional basis.

Western European integration is a major factor contributing to the rise of regionalism. One of the reasons for the formation of the EU-bloc is to respond to the rise of Japan, and to serve as a catalytic force in the competition for world markets. At present the EU's reliance on trade with nonmembers is rather limited. In 1991, around 60.8 percent of EU trade was internal.

In 1990, exchanges between countries belonging to the EU and NAFTA already accounted for almost 60 percent of world trade.<sup>7</sup> Compared with the fact that Japan, the largest economy in Asia, is unlikely to become the major absorber of the region's manufactured exports in the near future, the scope of any intra-regional integration scheme will likely be quite limited in East Asia.

The countries of OECD are becoming more protectionist than in the past. They have roughly similar trade policies, with restrictions on imports of labour-intensive consumer goods, such as textiles, clothing, footwear, and leatherware. Goods in which peripheral countries have a comparative advantage. The history of EU countries is dominated by protectionism and dis-

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<sup>7</sup> IMF, *International Financial Statistics Yearbook*, Washington, 1991.

criminary solutions to economic problems whose impact increased sharply on the rest of the world. Japan puts an almost universal emphasis on restricting imports on agricultural goods. Japan also uses nontariff measures to restrict imports of high-tech goods. The United States has strong restrictions on imports of consumer goods in general.<sup>8</sup>

The threat of growing protectionism in the form of regional blocs has been most evident recently in pre-NAFTA measures taken by the U.S. The trend in the Trade Acts of 1984 and 1988 is giving increased discrimination power to the administration to regulate imports by putting emphasis on reciprocity and bilateralism. In 1988, the U.S. Congress withdrew the benefits of the Generalized System of Preferences (GSP) from Singapore, Hong Kong, Taiwan, and South Korea. In 1989, it went further, labelling Japan as an 'unfair trader' under the provisions of the Omnibus Trade and Competitiveness Act (better known as 'Super 301'),<sup>9</sup> and reportedly only left South Korea and Taiwan off the list because of some market-opening measures on their part. In 1993 Thailand and Malaysia were threatened with similar measures unless they improved the situation on nontrade issues such as workers- and human rights. As such, protectionism is becoming even more systematic and nontariff barriers (NTBs) increasingly used to restrict imports.

It is true that tariff rates among GATT members have been reduced substantially partly as a result of various rounds of trade negotiations. Since then, however, more and more trade restrictions and trade escalations have been introduced in the form of NTBs. One of the NTBs most commonly used is the voluntary export restraint (VER) an agreement under which countries are invited to restrict exports on pain of retaliation. In effect, import restrictions have not diminished since the GATT Rounds. Moreover, members of the triad are the beneficiaries of tariff cuts and not the third world. For instance, after the Tokyo Round the EU reduced tariffs on imports of finished and semifinished manufactures on an average of 28 percent. Tariffs on imports from developing countries, however, have on average been reduced by only 25 percent. The comparative figures for Japan are 46 and 32 percent. While for the U.S. the

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<sup>8</sup> A good indication of the trend is summarized by Jagdish Bhagwati, Agressive Unilateralism: An Overview in Jagdish Bhagwati and Hugh T. Patrick (eds.), Agressive Unilateralism. America's 301 Trade Policy and the World Trading System, The University of Michigan, Harvester Wheatsheaf, New York, 1990, pp.1-45.

<sup>9</sup> Section 301 was originally introduced in the 1984 Trade Act and revised in 1988 to a more potent and efficient new 'super 301' - in effect a twentieth-century variant of gunboat trade diplomacy.



figures are 30 and 24 percent.<sup>10</sup> The total impact of tariff reductions, therefore, have not improved the competitiveness of developing countries with industrial countries.

However, the problem is not whether GATT succeeds or not, but the role of the North American economy as locomotive and major market in the world economy. As pointed out by Gilpin,<sup>11</sup> the long-term problem for the United States, and for the rest of the trading world as well, is the repayment of the vast accumulated U.S. debt - which is rapidly approaching one trillion dollars - to the Japanese and to other foreign creditors. To accomplish this task, Washington will have to devalue the dollar even more substantially than it has already and achieve a trade surplus. The problems such an American turnaround in trade and finance would cause for other nations can only be described as formidable. It would certainly require a substantial appreciation of the yen and Japanese importation of huge quantities of foreign products. The Japanese as well as the West Europeans and the NICs could be expected to resist strongly any large appreciations of their currencies because of the consequences for domestic employment. As stated in the conclusion of Gilpin's article: the question is where Japan fits into the emerging international economy? Is Japan going to be the new locomotive, the new major absorbing market in a world economy with surplus capacity?

### **3. Impact on the ASEAN-4: the case of Japan**

ASEAN's dependence on Japan extends to investment and overseas development assistance (ODA) as well as trade. Achieving economic influence can be applied to explain the motivation behind the Japanese government's strategic use of foreign economic policy as well as certain aspects of the bilateral relationship. ASEAN's policymakers are receptive to Japanese economic assistance in the form of aid, grants and technological cooperation of any kind. These countries have long seen their respective economies benefit from Japanese private investment, joint ventures and ODA. Presumably, ASEAN will continue to request additional loans, grants, investment and joint ventures from Japan.

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<sup>10</sup> Suhadi Mangkusuwondo, Trade Policy as a Strategy for Structural Adjustment, in Ungku A. Aziz, (Mod.), Strategies for Structural Adjustment. The Experience of Southeast Asia, Papers presented at a Seminar held in Kuala Lumpur, Malaysia, June 28-July 1, 1989, International Monetary Fund & Bank Negara Malaysia, Washington, 1990, p.91.

<sup>11</sup> The following paragraph relies on Robert Gilpin (b), Where does Japan fit in? in Kathleen Newland, The International Relations of Japan, Macmillan, London, 1990, p.19.

A country's international economic and political interests are interrelated with foreign assistance as a tool of implementing them. Japan is East Asia's largest aid donor, a title it took from the United States in the 1970s. It was during the 1980s that Japan became the dominant economic actor in Southeast Asia. A key element in this development was the change in Japan's ODA policy. Prompted by the Vietnamese invasion of Cambodia and a recognition that the region, which amongst other things supplied 15 percent of Japan's oil and through which another 70 percent passed on its way from the Middle East, needed to be shored up. The Japanese government thus started to increase the amount of aid to the ASEAN economies. This interest in ASEAN, it should be noted, was stimulated in part by American requests that if Japan could not help in providing military support it could at least boost its economic aid to Thailand - the ASEAN country most immediately threatened by Vietnam. Moreover, in the wake of the 'February 1986 People's revolution' in the Philippines, the Americans encouraged the Japanese to pump more aid into the faltering Filipino economy. The relative importance of Southeast Asia for Washington and Tokyo is reflected in the percentage of total aid that each devotes - about half of all Japanese aid goes to Southeast Asia compared to only 10 percent of all American foreign assistance. Nevertheless, as a longterm observer of Japan's foreign policy notes, "Japan's aid has been neo-mercantilist, designed to further Japan's geoeconomic goals."<sup>12</sup>

As a result of requests from Washington and Japan's own economic interests in the region, Japanese aid to the members of ASEAN rose dramatically, from U.S.\$703 million in 1980 to U.S.\$2.132 million in 1989.<sup>13</sup> Even Singapore, whose per capita income rivals that of some developed countries, was given U.S.\$13 million in grants and U.S.\$72 million in technical assistance by the Japanese between 1985 and 1989. Inoguchi's paper from whom these figures are taken concludes: "Most important for the argument that is being developed here, in the later half of the 1980s Japan supplied 65 percent of all the bilateral ODA received by the countries of Southeast Asia. It is no wonder that these countries have come to see Japan as having the economic resources to occupy a leadership position."<sup>14</sup>

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<sup>12</sup> William R. Nester(d), Japan and the Far East: Neomercantilism, Prosperity, and Dependence, Asian Profile, Vol.19, No.6, December 1991, p.509. See also William R. Nester(a), The Foundation of Japanese Power: Continuities, Changes, Challenges, Macmillan, London, 1990, William R. Nester(b), Japan's Growing Power over East Asia and the World Economy: Ends and Means, Macmillan, London, 1990, and William Nester(c), The Third World in Japanese Foreign Policy in Kathleen Newland (ed.), op cit.

<sup>13</sup> Takashi Inoguchi, Japan's Foreign Policy in a Time of Uncertainty, International Journal, Canadian Institute of International Affairs, Vol. XLVI, No. 4, August 1991, p.658.

<sup>14</sup> Inoguchi, Japan's, ibid. p.658.



The main part of private investments going into ASEAN are in the manufacturing sector with a number of them involving the transfer of plants from Japan and the Four Tiger nations.<sup>15</sup> Major Japanese banks are also in the process of establishing a foothold in Indonesia, Malaysia and Thailand. Lured by rapid economic growth, the prospects of profits, the increasing deregulation of the financial sectors, and the presence of Japanese companies, the banks are rushing to set up either joint ventures or branches in Bangkok, Kuala Lumpur, and Jakarta. As of April 1989, there were 14 Japanese bank offices in Indonesia, 13 in Malaysia, and 10 in Thailand, with more expected in the near future.

Such investments are not without problems. The tight control Japanese executives exert over subsidiary operations, together with other management practices, cause tensions. Such tensions are often reinforced by memories of World War II and, thus, although official government policy is to promote and welcome Japanese investments, resentment is widespread. In Thailand, for instance, Japanese companies are causing disturbances in the labour market, as employees frequently leave domestic Thai firms to work for Japanese firms which offer better pay and working conditions. These salaries increase the average wage level thereby creating problems for domestic entrepreneurs. Local input is another source of friction. While a few Japanese manufacturing companies claim they try to increase such content this is not always done anyway, particularly if the content-level is set by law and, thus, must immediately be met. Because the infrastructure of most countries in the region is not well developed, sudden increases in Japanese foreign direct investment (FDI) also put great strain on existing facilities. The port of Bangkok, for instance has frequently ships filled with cargoes waiting for unloading and loading.<sup>16</sup>

In a 1988 case study of Japanese transnational construction companies and 51 Thai-Japanese joint-ventures a grim picture of the Japanese herd mentality emerged combining loans, aid and FDI. In fact the Japanese experience tells us, "the fundamental purpose of Japanese investment policy has been to further the strategic objectives of Japan. Through its economic policies and influence over foreign investment, Japan has sought to further its own economic development,

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<sup>15</sup> I.e. South Korea, Taiwan, Hong Kong and Singapore. However - investment in trade and construction are also significant and the volume in agriculture and services although still relatively small has increased rapidly in recent years.

<sup>16</sup> Chikara Higashi & G. Peter Lauter, The Internationalization of the Japanese Economy, (Second Edition), Kluwer Academic Publishers, Boston/Dordrecht/London, 1990, pp.344-345.

national security, and political autonomy."<sup>17</sup> However, this is not different in general terms but perhaps in degree from the policy of other major powers.

Given that background, it is not difficult to understand why Japan has been reluctant to lead any Asian response to EU and NAFTA. In fact, there seems little reason to fear a closing off of East Asia. The region is anything but uniform. Its countries have no common heritage, are split between various modes of political regimes at different stages of growth, and are adverse to leadership by any single country. Nevertheless, there seems to be not only a regional but a global expectation to Japan that she assumes a role commensurate with her economic strength.

#### **4. ASEAN, AFTA, EAEC: Regional defensive responses**

The answer to the changes in the global economy on the part the member-states of ASEAN has been the adoption of various defensive measures, such as the Malaysian Prime Minister Mahathir's proposal of creating the East Asia Economic Group (EAEG).<sup>18</sup> This grouping changed its name in 1992 to the East Asian Economic Caucus (EAEC) under Japanese leadership and American exclusion. However, Mahathir's proposal clearly resembles a 1988 response from the Japanese Ministry of Foreign Affairs which came up with the idea of an East Asia Economic Ring (EAER).<sup>19</sup> Many of the details of EAEC are not yet available. But public statements by its proponents emphasize the following:

- 1) EAEC is intended to be a consultative forum. Memberstates can use EAEC to discuss, on an ongoing basis trade and economic issues of mutual interest.

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<sup>17</sup> Robert Gilpin(b), Where, op cit. pp.16 and Pasuk Pongpaichit, The New Wave of Japanese Investment in ASEAN, ASEAN Economic Research Unit, Institute of Southeast Asian Studies, Singapore, 1990, p.114 (fn.4).

<sup>18</sup> EAEG was launched in a speech delivered by Prime Minister Mahathir bin Mohamed in Bali, Indonesia on 4 March 1991.

<sup>19</sup> Li Shi Chun, Japan's Role in the International Division of Labour, Paper presented at the ASEAN-China Hong Kong Forum 1989 Hua Hin, Thailand. In Susumu Awanohara (ed.), Japan's Economic Role in the Asian Pacific Region. Policy Implementation and Responses, Centre for Asian and Pacific Studies, Hong Kong, 1990, pp.24-25.

- 2) EAEC is not intended to be a trade bloc but consistent with GATT-rules and contribute to the success of the Uruguay Round in its attempt to maintain and enhance the global trading system.
- 3) EAEC will not create trade barriers to imports from third countries but explore all areas of potentially productive cooperation across the whole spectrum of economic interrelationships.

U.S opposition to EAEC prevents the implementation of an organizational structure or even a schedule of meetings. Therefore the result remains unclear.

This is also the case with the former Thai Prime Minister Anand's 1992-suggestion to create an ASEAN Free-Trade Area (AFTA), for manufactured goods within a 15 years period through the progressive lowering of tariffs blocking the movement of goods within the group. There are several motives behind forming AFTA;<sup>20</sup> all of them essentially involve the perception in ASEAN countries that world trade today is being managed in various forms, especially by the regional blocs in Europe and North America. Under the AFTA-scheme ASEAN decided to reduce tariffs on manufactured products to 5 percent or less. The implementation of this proposal is not without complications. Sree Kumar of the Institute of Southeast Asian Studies in Singapore says that a major obstacle is the fact that ASEAN countries, "tend to compete for similar investments and access to the same markets."<sup>21</sup> While the value of intra-ASEAN trade increased to \$25.3 billion in 1990 from \$12.9 billion in 1980, it has barely kept up with the rise in ASEAN trade with the rest of the world, which totalled \$268 billion in 1990. "As a proportion of the group's total trade, intra-ASEAN commerce stood around 20 percent in 1990, little changed from a decade earlier."<sup>22</sup> Nearly 16.000 items were included in an ASEAN preferential trading arrangement (PTA) signed in 1977. Most of these were put there because of their low demand. For instance, snow plows, of no use in the tropics, are on the list. However impressive, it has not increased preferential trade in ASEAN

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<sup>20</sup> As stated in its proposal, motives to form AFTA beside that in the area of trade involve the goals to 1)attract foreign investment through increased operations of TNCs, 2)to enhance the bargaining power of ASEAN as an entity.

<sup>21</sup> Michael Richardson, Can ASEAN Meet The EC Challenge?, International Herald Tribune, January 21, 1992.

<sup>22</sup> Richardson, Can ASEAN, *ibid.*

which remained at 1 percent of total intra-ASEAN trade.<sup>23</sup> All empirical studies on the likely impact of the PTA on intra-regional trade confirm that the effects of the tariff cuts have been minimal.<sup>24</sup>

Although ASEAN has generated an extensive interactive network of governmental and private agencies, regional economic cooperation is still very slow, especially in the crucial areas of trade liberalization and industrial production. For instance, in spite of the ASEAN Preferential Trading Arrangement and Complementation Scheme, intra-ASEAN exports increased marginally from 16.7 percent in 1980 to 17.4 percent in 1989, which largely reflected Singapore-Malaysia and Singapore-Indonesia trade. In fact, the share of exports from the Philippines and Thailand to other ASEAN countries has declined.

But more important than formal agreement, nontariff barriers in the ASEAN countries pose an even higher impediment to intra-trade than tariff levels. Customs rules and practices are not uniform and are difficult to interpret in many ASEAN countries.

The general problem inherent in the various responses of the ASEAN member-states, individually as well as a regional group, has been the tendency to shy away from more substantive areas such as harmonization of trade and investment policies or macro-economic coordination.<sup>25</sup> Regional cooperation has generally focused on a relatively shallow level of cooperation in trade, industrial development, environment management and exchange of information. Furthermore, the ASEAN framework is not governed by any legal or legislative agreement, in the form of a treaty. On the contrary, the arrangement is loose and flexible, and is generally based on a simple memorandum of understanding. Finally, nationalism continues to prevail over regional interests. For instance, when the United States offered ASEAN preferential trade benefits, similar to those extended to Mexico and the Caribbean, the ASEAN

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<sup>23</sup> Tan Kong Yam, Toh Mun Heng, and Linda Low, ASEAN and Pacific Economic Cooperation, ASEAN Economic Bulletin, Vol.8, No.3, 1992, p.311.

<sup>24</sup> Yam et.al., ASEAN and pacific, ibid. pp.311.

<sup>25</sup> Seeji Naya (Coo.), ASEAN Economic Cooperation for the 1990s, A report prepared for the ASEAN Standing Committee, Philippine Institute for Development Studies and ASEAN Secretariat, Manila, 1992, p.19. Refer in the same volume to Dr. Chng Meng Kng, Deputy Secretary General at the ASEAN Secretariat, who explains why the ASEAN Secretariat's role within ASEAN is marginalized to the point of redundancy: 1) desire of member countries for wider participation of its officials in ASEAN activities, whatever the tangible benefits of such participation. 2) there is a lingering fear that a strong ASEAN Secretariat may usurp national control. 3) there is also concern that an expanded Secretariat may not generate benefits commensurate with the financial cost involved. Chng Meng Kng, Institutional Structure for Enhanced Economic Cooperation. In Seeji Naya, ASEAN Economic, ibid, pp.97.

countries insisted that Washington sign six separate treaties with them. The U.S. offer was subsequently shelved.<sup>26</sup>

The factors threatening export-led growth menace are once of supply and demand. On the demand side, the menace to the absorption of exports from Japan, the NICs and Would-be-NICs by the U.S., has been pointed out as a principal reason. Another and even far more important cause is overcapacity on a world scale. The problem is that the capitalist world economy is once again facing a situation of overproduction with no solution in sight. In Sen's words: "The reproduction of similar structures of production introduces a secular tendency towards the creation of surplus capacity in substantial areas of manufacturing since internal and external economies of scale compel a level of production which most countries cannot sustain through domestic consumption alone."<sup>27</sup> The economic rationale and impetus for absorption of exports from the NICs and Would-be-NICs is contrary to political sentiments. The newly emerging countries on the basis of an export-led growth strategy have now to compete with the industrialized countries in supplying high quality and competitive manufactures. This problem also seems to be one of the major impediments to closer regional economic cooperation in ASEAN, because the economies are competitive rather than complementary.

By 1990, ASEAN had a large domestic market of 330 million people with a combined GNP of U.S.\$300 billion or U.S.\$1,100 per capita compared to Japan's 123.5 million people with a GNP of U.S.\$2,990 billion or U.S.\$24,213 per capita. The move to AFTA will have a limited effect on world trade and will not dismantle GATT's multilateralism. In 1991, the share of ASEAN in world trade was only 4.6 percent. Moreover, ASEAN countries will not overly emphasize intra-ASEAN trade since the role of exchanges with nonmembers is of greater importance. Therefore, it is appropriate to define AFTA and EAEC as extra-national possibilities. National development objectives still plays the determining role when a choice is available. The conditions in East Asia (referring to Japan, the NICs, and ASEAN) do not

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<sup>26</sup> Bangkok Post, Cooperation in a Pipe-Dream, 11, November, 1991.

<sup>27</sup> Gautam Sen, The Military Origin of Industrialization and International Trade Rivalry, St. Martin's Press, 1984. Quoted from Robert Gilpin(a), The Political Economy of International Relations, Princeton University Press, Princeton New Jersey, 1987, p.113.

satisfy a number of basic prerequisites for regional integration or economic regionalism.<sup>28</sup> Indeed ASEAN seems to favour closer cooperation rather than economic integration.<sup>29</sup>

If the conditions for successful regional integration are absent in the East Asian context it leaves only the state as the main actor and catalyst at the politico-economic level. The politically insulated nature and bounded autonomy of the state in ASEAN resembles in appearance that of the NICs but not the character itself. In spite of important differences between the six member-states in terms of influence from the business sector on economic policy-making there are important similarities as well when compared with the NICs.

## 5. Catch-up or be left behind

The argument that the features explaining high economic growth of the ASEAN countries can be attributed mainly to the role of the state, and not ASEAN, or its subsequent free trade area AFTA forms the core thesis of this study. It might even be claimed that seen from Southeast Asia the most appropriate answer to the regionalization of the world economy is strengthening of state capacities and capabilities. This is illustrated by the extremely high rates of investment in physical capital. In this respect, the countries of the region have been following the path trodden earlier by Japan. As a general rule, countries sustain a brisk expansion if, after their per capita income levels climbs above \$1000, their fixed capital investment (the combined investment by the private and public sectors) remains in excess of 30 percent of GNP. Such a high level of investment carries with it the risk of faster inflation and a deteriorating balance of payments, but it enables a dynamic pattern of growth. It is noteworthy that in 1989 fixed capital investment as a percentage of GNP was 37.3 percent in Singapore, 34.7 percent in Indonesia, 31.0 percent in Thailand, 29.6 percent in Malaysia compared with 31.6 percent in South Korea.

The important role of state policies is further seen from the priority given to growth-related objectives, such as increasing productivity and competitiveness and promotion of industrialization policy since the 1960s. The state in ASEAN, also, plays an active role in capital

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<sup>28</sup> See the arguments by the President of the Bank of Tokyo, Tasuku Takagaki, Dynamic Growth as an Antidote for Trading Blocs, Economic Eye, Vol.13, No.2 1992, pp.5-6.

<sup>29</sup> Narongchai Akrasanee, ASEAN Economic Cooperation, in Linda G. Martin (ed.), The ASEAN Success Story, Social, Economic and Political Dimensions, East West Center, University of Hawaii, Honolulu, 1987, p.112.



accumulation through state enterprises and government participation in joint public-private ventures. However, the global recession in the mid-1980s, somehow changed the heavy reliance on state capital in favour of the new catch-words: liberalization, privatization and deregulation. But still, the role of state capital plays a significant role albeit a changing one to more interventionist policies and state-led developmentalism. As will be stressed below, the degree of state intervention in orchestrating export-led growth is particularly evident in the specific relationship between state and civil society in ASEAN countries. If any lesson is to be learned with respect to replicating the NICs success, it depends on the possibility of governments standing above vested interests in the creation of social and political infrastructure conducive to growth. As Broad et al. have pointed out: "Indeed, though it may sound paradoxical, one needs an effective government to create the market."<sup>30</sup>

Therefore, it seems appropriate to consider why ASEAN have had such striking growth rates over the last decade compared to most other parts of the world, except the NICs, as well as an impressive level of real growth in capital formation. To do so, we are dealing with such a varied set of political factors in each case that the search for some explanatory hypothesis or model is difficult. Nevertheless, there are a number of common patterns in the region of which the state-building rather than nation-building process per se has been most outstanding and, as this inquiry, intends to show the external factors have had an additional determining influence. Five main factors are among the most important growth-promoting elements in the economic expansion of ASEAN countries:

- 1) Embedded autonomy of state policies and efforts to promote industrialization.
- 2) Increase of FDI, particularly from Japan and the NICs.
- 3) Increase of exports.
- 4) Decline in competitiveness of the NICs.
- 5) Increased regional political stability.

If the scope of analysis is limited to the domestic arena, the cases from the ASEAN-4 suggest that some widely accepted views of the role of the state in development should be challenged. First, the state in the ASEAN-4 has been vital to both economic growth and political stability. In addition, state elites have had to struggle to construct and maintain political stability, which is not simply a derivative of embedded cultural values. Despite some liberal economic policies, the weight of state intervention has been consistent and has been a central and

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<sup>30</sup> Robin Broad, John Cavanagh and Walden Bello, Development: The Market is Not Enough, Foreign Policy, Carnegie Endowment for International Peace, No.81, Winter, 1990-1991, p.156.

essential actor in the economic and political arenas.<sup>31</sup> Even after the so-called deregulation in the late eighties and the beginning of the nineties not much has changed. Only on the surface, to satisfy demands from the international institutions, the World Bank, IMF and the like, some peripheral activities have been sold out. A highly formal and informal protection of sensitive sectors is still reinforced throughout the ASEAN-4, apart from the Philippines.

The question of state-society relationship has immense importance to the understanding of the high growth strategy in ASEAN. Although they had been very prominent during the earlier years of turbulent mobilization politics in the immediate post-colonial period peasant organizations, the working classes and trade unions have been excluded from effective political action in the ASEAN countries over the last twenty-five years, as was also the case in Japan and the NICs. According to Crouch and others, business classes with some variation have also largely been excluded.<sup>32</sup> Moreover, female labour has been subordinated to the role as a stable cheap reserve-army especially in the export-oriented sector - electronics and semi-conductors - in the framework of the patriarchy-paternalistic development-model.<sup>33</sup> One cannot underestimate this pattern of exclusion and subordination, which as a paradox, complements the neo-classical thesis of flying geese as evidently in the case of the ASEAN-4 as in the context of the NICs and Japan.

Of a list of factors explaining why the ASEAN-4 have not achieved the phenomenally high growth rates of the NICs, one point is outstanding: *The dominant position of a Chinese Businessclass*. This has been an issue of great sensitivity with at times a politically explosive potential. None of the NICs never had to cope with anything like this problem. The presence of the various Chinese minorities in Southeast Asia has been a mixed blessing. While their entrepreneurial talents have been beneficial in contributing to the opening up of the region and societies where indigenous enterprise and capital were scarce, the social and political problems associated with the Chinese minorities are quite disproportionate to the numbers involved because of their higher socio-economic status. All ASEAN governments have at times sacrificed efficiency-maximizing considerations to the imperatives of economic nationalism involving measures disadvantageous to ethnic Chinese. Fortunately, measures of this kind have

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<sup>31</sup> Donald K. Crone, State, Social Elites, and Government Capacity in South East Asia, World Politics, Vol.XL, January 1988, No.2, p.268.

<sup>32</sup> Harold Crouch, Domestic Political Structures and Regional Economic Cooperation, Institute of Southeast Asian Studies, ISEAS, Singapore, 1984.

<sup>33</sup> See the articles in Bina Agarwal (ed.), Structures of Patriarchy. The State, the Community and the Household, Women and Household in Asia - vol.2, Indian Association for Women's Studies, Zed Books, London and New Delhi, 1988.



been less blatantly discriminatory over the last twenty years or so (except in Indonesia and Malaysia) than in the earlier post-war years. However, it will take a long time before it ceases to be a constraint upon government policy-making in Indonesia, Malaysia and perhaps in Thailand.<sup>34</sup> It is partly, because of the post-colonial significance of the ethnic Chinese, as well as of foreign capital, that economic nationalism remains a pervasive force in the ASEAN-4.<sup>35</sup>

As Mackie pointed out in 1988, the governments of ASEAN are shielded against direct pressure from business groups, their policies being determined more by bureaucrats and technocratic specialists than by clamorous politicians or parties representing sectoral interests.<sup>36</sup> This specific relationship between state and society is very well capsulated in Deyo's study on the exclusion of the working class in East Asia: "The political and economic strategies of East Asian elites draw moral strength from two closely related sets of values. The first of these, centered on paternalism, invokes the moral authority of leadership that both defines and pursues national (versus sectoral) interests through bureaucracy and public pronouncement. The second, asserts the efficiency of such leadership through its proven material consequences for the public wealth. Economic development is the chosen measure of national welfare and thus a crucial basis for political legitimacy. Development paternalism, the composite of these two legitimating principles, justifies political exclusion and authoritarian rule as necessary for continuing high levels of growth. Alternative legitimating principles are effectively excluded from the moral domain of public discourse."<sup>37</sup> Even though Deyo's analysis is concentrated on the NIC experience it also has validity in the case of the ASEAN-4,<sup>38</sup> with the Philippines as the important exception. The state in the Philippines and the realm of Filipino economic policy has been invaded by historically dominant interest groups, whose positions were temporally eclipsed during the Marcos era. This elite is in a process of re-establishing its class

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<sup>34</sup> For an explanation on the influence of the Chinese ethnic factor and foreign capital on regime- and state-form in Thailand see Johannes Dragsbaek Schmidt, Theory and Reality of Democracy and Thai Democratization. Winners and losers in a developmental context, KASARINLAN, Philippine Quarterly of Third World Studies, Vol.8, No.3, 1993, pp.98-144.

<sup>35</sup> J.A.C. Mackie, Economic Growth in the ASEAN Region: The Political Underpinnings, in Helen Hughes (ed.), Achieving Industrialization, Cambridge University Press, Melbourne, 1988.

<sup>36</sup> Mackie, Economic Growth, *ibid.* pp.293.

<sup>37</sup> Frederic C. Deyo, Beneath the Miracle - Labour Subordination in the New Asian Industrialism, University of California Press, Berkeley, 1989, p.189.

<sup>38</sup> See for example Ng Chee Yuen, Sueo Sudo and Donald Crone, The Strategic Dimension of the "East Asian Developmental States", ASEAN Economic Bulletin, Vol.9, No.2, November 1992, p.222.

power, and individuals and elite factions are situating themselves to utilize state resources again and state power to their own advantage.<sup>39</sup>

Taken as a whole it is the existence of development paternalism as the legitimizing strategy of the state which enables the policy elite and the technocrats to implement an autonomous economic policy course. Development paternalism provides political stability in the domestic context and in the relationship between national capital and foreign investors.

When the scope of analysis is extended to include the external factors another picture emerges which neither shows a successful emulation nor implementation of a strategy of 'guided economy' or 'capitalist developmental state'.<sup>40</sup> It has already been pointed out that, the most important constraint on enhancing the developmental capacities and the autonomy of the ASEAN-4 states is to be found in the international context. One example mentioned has centered around growing protectionism in the core states with the increasing tendency towards formation of exclusive trade blocs. In addition there are a number of differences between the NICs and Would-be-NICs which limit the strength of Southeast Asian state responses to changes in the international economy. The most important difference is the problem that contrary to the NICs the ASEAN-4 states' dependency on foreign investment, technology, and financial capital is extremely high.<sup>41</sup> Furthermore, there is a consistent pressure from the multilateral institutions, the World Bank, IMF and GATT for a premature opening of the domestic markets.

On the other hand it was the Yen appreciation that expanded the growth area from Japan to the NICs and the ASEAN countries. Japan's FDI in Southeast Asia is aimed at constructing a world base for production and export, taking advantage of the low production costs and government incentives. Following the Plaza-Agreement a new upsurge in FDI from the NICs took place. This new trend reflects a decline in competitiveness of the NICs due to high appreciations of national currencies. Finally, Vietnam's withdrawal from Cambodia and

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<sup>39</sup> Charles Lindsey, The Political Economy of International Policy Reform in the Philippines: Continuity and Restoration. In A.J. MacIntyre and K. Jayasuriya (eds.), The Dynamics of Economic Policy Reform in South-East Asia and the South-West Pacific, Oxford University Press, Singapore, 1992, pp.75/95.

<sup>40</sup> For applications in the East Asian context, see Gordon White and Robert Wade, Developmental States in East Asia, Macmillan, London, 1988.

<sup>41</sup> See also Shoichi Yamashita, Economic Development of the ASEAN Countries and the Role of Japanese Direct Investment, in Shoichi Yamashita (ed.), Transfer of Japanese Technology and Management to the ASEAN Countries, University of Tokyo Press, 1989, p.5.

prospects for peace in Indochina combined with the peaceful transition in the Philippines from the Marcos regime to Aquino increased regional stability.

## **6. Neo-mercantilism as a response - tentative conclusion**

As this article has tended to show, the regional response in Southeast Asia to changes in the world order and the international division of labour has limited effects. EAEC and AFTA are defensive acts as the focus of individual states remains on national development. There are other options both at the regional and national level; such as the Asia Pacific Economic Cooperation (APEC) and the increasing emphasis on state supported small regional growth triangles. But again these examples are either through cooperation among states or require a strong role of the state in providing infrastructure, tax incentives etc. They are extra-national and do not figure among the highest priorities on the development-agenda in these states. Another related problem is very basic, because governments cannot emphasize three regional alternatives at the same time. AFTA (ASEAN), EAEC and APEC are in contradiction and remains in a competitive situation leaving policy elites only one option: the national alternative.

Although ASEAN regionalism is based on the theoretical assumption of the equality of states, in practice, the larger ASEAN states have come to exert greater influence over the regional organization. The discussion of equality of states becomes rhetoric when regional interest is subsumed under individual national interest which dictates that the ultimate goals of the state be pursued by various means. The prime example, of course, is that Indonesia has been unanimously accepted as the leader of ASEAN in regional affairs. This is testified by a number of ASEAN's decisions, which include the locating of the ASEAN secretariat to Jakarta, the appointment of an Indonesian as the first secretary general of ASEAN, the holding of the first ASEAN summit in Bali and the recognition of president Suharto as the elder statesman in Southeast Asia.<sup>42</sup>

The newly industrializing countries are not new phenomena in the history of political economy. In fact, all core and semi-peripheral states used elements of a capitalist developmentalist state as a prerequisite for industrial take-off. Basic knowledge of the history of England, the United States, and later on, Japan shows a highly interventionist state in the

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<sup>42</sup> For similar observations, see Lau Teik Soon, ASEAN Diplomacy: National Interest and Regionalism, Journal of Asian and African Studies Vol. XXV, nos. 1-2, 1990, pp. 116-117.

initial phases, heavy state support to infant industries and the closing off of various productive sectors with either high tariffs or substitution-policies, or both.

This basic fact of history seems to become more or less the common lesson of the day, not only in the case of the NICs or Southeast Asian Would-be NICs, but certainly also in the People's Republic of China and Vietnam.

The lesson to be learned from the experience of Japan, Korea and Taiwan and indeed all other core and semi-peripheral states is the significance of neo-mercantilism as a deliberate development strategy. According to one definition neo-mercantilism is: "a combination of industrial targeting at home, export of the resulting products into the world economy and, import barriers against competitive foreign products. In short neomercantilism is defined as the separation of economics and politics with a foremost priority on economic growth, trade and export."<sup>43</sup> It is on this particular aspect that Thailand, Malaysia and Indonesia have been successful in emulating the earlier experiences of other developmentalist states.<sup>44</sup> In contrast, the Southeast Asian context provides the case of the Philippines as the exception that strengthens the argument of this article. Not only, because of the influence, economic interest groups exerts on state affairs, but also because of the direct pressure on policymakers from the IMF and the World Bank. The Philippines is an excellent example of IMF and World Bank mistreatment. The limited role of the state in the Philippines is a case in point. Technocrats and the economic elite have been forced to follow the stringent multilateral advice during 18 structural adjustment programmes, stabilization packages and lending programmes in a period of 20 years. This continuing pressure has eroded the developmentalist capacities of the Filipino state leaving the domestic business sector without much support, unclear policies regarding foreign capital and on the other hand, the polity is highly politicized leaving a weak state and policy framework. The Philippines transition from Marcos to so-called democracy has become a restoration of old-money families devoid of even the most feeble political will to effect change.

However, it must be stressed that the transformation of the world economy provides both opportunity and crisis. The NIC phenomenon in East Asia were marked by specific historical circumstances nurtured by the hegemonic role of the United States after the Second World

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<sup>43</sup> William Nester(c), The Third World, op cit. pp.72.

<sup>44</sup> For this kind of argument see also Suhadi Mangkusuwondo, op cit. pp.91-92. And Mohamed Ariff, Comment on Paper: Trade Policy as a Strategy for Structural Adjustment by Suhadi Mangkusuwondo, of Ungku A. Aziz, Strategies for Structural Adjustment, op cit., pp.95-98 .

War. Due to the increasingly hostile international environment it is doubtful if the ASEAN-4 countries are in a position of repeating the NIC success story. Economic policies in the developed triad have again increased protectionism and reestablished the role of the interventionist state and a regulated market economy. If catching up is defined in terms of industrialization, and it is treated synonymously with development then East Asia has been very successful. But as a matter of fact, the economic command of the semi-periphery relative to the core remains constant, and that of the periphery has worsened.<sup>45</sup>

As regional trade blocs in the North enhances liberal trade within their own boundaries they do so, obviously, at the expense of nonmember nations and threaten to divert preexisting patterns of trade, i.e. they capture market shares that formerly went to, say, Southeast Asia. It remains to be seen if the newly concluded GATT talks will increase multilateralism and free trade or protectionism will prevail.

The findings from this article suggests that Southeast Asian policy responses have been confined to the state level. While regional responses have been exclusively in the form of various defensive and reactive proposals state managers and policymakers have been able to establish a comprehensive framework and more important they have managed to implement a combination of ISI and EOI strategies. In the meantime bilateralism and a degree of neo-mercantilism are the only options in a hostile world economy. Or, rather, national interests invariably predominate over regional interests.

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<sup>45</sup> According to World Bank and IMF statistics the last three decades have seen a shift from growth and prosperity in Latinamerica to East Asia. But economic command remains in the hands of the triad.

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